Ref #	Hits	Search Query	DBs	Default Operator	Plurals	Time Stamp
S1	0	e-trade.as.	USPAT	OR	OFF	2005/06/20 09:13
S2	0	etrade.as.	USPAT	OR	OFF	2005/06/20 09:13
S3	0	etrade$.as.	USPAT	OR	OFF	2005/06/20 09:13
S4	27	$schwab.as. Reviewed titles	USPAT	OR	OFF	2005/06/20 13:24
S8	623603	stock$ or trad$	USPAT	OR	OFF	2005/06/20 13:25
S9	6714	loan$ or (asset adj based adj lending) or factoring	USPAT	OR	OFF	2005/06/20 13:28
S12	0	S5 and S6	USPAT	OR	OFF	2005/06/20 13:29
S13	74409	loan$ or lend$	USPAT	OR	OFF	2005/06/20 13:29
S14	2609	S8 and S9	USPAT	OR	OFF	2005/06/20 13:31
S15	22122	S8 and S13	USPAT	OR	OFF	2005/06/20 13:30
S16	506088	electronic or e-commerce	USPAT	OR	OFF	2005/06/20 13:30
S17	1461	S14 and S16	USPAT	OR	OFF	2005/06/20 13:31
S18	111020	bank$	USPAT	OR	OFF	2005/06/20 13:32
S19	772	S17 and S18	USPAT	OR	OFF	2005/06/20 13:32
S20	772	S17 and S18 review titles.	US-PGPUB; USPAT; USOCR	OR	OFF	2005/06/20 13:33
S21	5	(US-6856970-$ or US-6691094-$ or US-6470326-$ or US-6415267-$ or US-6058378-$).did.	USPAT	OR	OFF	2005/06/20 13:49

S22	113	("3596256" | "3727186" | "3833885" | "3852571" | "3938090" | "3956615" | "4023013" | "4025760" | "4032931" | "4075460" | "4091448" | "4114027" | "4186438" | "4319336" | "4493021" | "4536647" | "4567359" | "4642768" | "4688170" | "4722055" | "4727243" | "4734858" | "4752877" | "4799156" | "4823264" | "4858121" | "4903201" | "4914587" | "4933971" | "4943995" | "4972463" | "4989141" | "4992940" | "5025373" | "5038284" | "5077665" | "5101353" | "5124909" | "5157717" | "5168446" | "5195130" | "5202826" | "5220501" | "5231571" | "5262942" | "5265033" | "5268838" | "5287270" | "5291398" | "5305200" | "5351186" | "5424938" | "5436966" | "5448471" | "5457797" | "5473143" | "5497317" | "5592379" | "5631828" | "5699528" | "5706442" | "5729594" | "5742845" | "5761071" | "5761683" | "5781909" | "5787403" | "5809483" | "5815657" | "5864685" | "5870724" | "5890140" | "5893071" | "5913202" | "5915209" | "5933815" | "5944791" | "5953504" | "5987517" | "6023684" | "6058250" | "6061661" | "6085177" | "6105012" | "6141699" | "6151588" | "6157918" | "6161096" | "6233566" | "6304858" | "6311178" | "6321212" | "6330541" | "6505175").PN. OR ("6058378" | "6415267" | "6470326" | "6691094" | "6856970").URPN.	US-PGPUB; USPAT; USOCR	OR	OFF	2005/06/20 13:52
S23	158	705/37.ior. reviewed	USPAT	OR	OFF	2005/06/20 15:16
S24	135	705/35.ior. titles.	USPAT	OR	OFF	2005/06/20 15:31
S25	197	705/1.ior.	USPAT	OR	OFF	2005/06/20 15:34
S31	4	(("6134535") or ("6393407") or ("5918158") or ("6272474")).PN. reviewed patents!	US-PGPUB; USPAT; USOCR	OR	OFF	2005/06/21 13:52
S32	5640	bank$ and (loan$ or lend$)	USPAT	OR	OFF	2005/06/21 13:53
S33	165	bank$ and (loan$.ab. or lend$.ab.)	USPAT	OR	OFF	2005/06/21 13:54
S34	80	bank$ and (loan$.ab. or lend$.ab.) and (on-line or e-commerce or electronic or emulator)	USPAT	OR	OFF	2005/06/21 15:28

reviewed abstract

S35	16	("4674044" | "4750135" | "4868866" | "5101353" | "5297031" | "5297032" | "5339392" | "5675746").PN. OR ("6134535").URPN.	US-PGPUB; USPAT; USOCR	OR	OFF	2005/06/21 14:53

reviewed abstract.

/7/2
DIALOG(R)File 485:Accounting & Tax DB

00412400
Asset - based lending : **An overview**
Yelton, Barry D
Secured Lender v49 n3 PP: 22-31 May/Jun 1993
ISSN: 0888-255X JRNL CODE: SCL
DOC TYPE: Journal article
LANGUAGE: English SPECIAL FEATURE: Diagrams CODEN: DCAC
WORD COUNT: 2940 LINE COUNT: 267

ABSTRACT: Asset-based lending (ABL) presents a unique way to build a profitable portfolio relatively quickly. Unlike term lending, asset-based loans often grow along with the growth of the borrowers. Another attractive aspect is that, since the loans are monitored to a degree, they can be controlled. By having dominion of funds, the asset-based lender also can control advances and capture accounts receivable collections to reduce the overall loan exposure. However, because a distressed borrower can liquidate collateral quickly, constant monitoring and due diligence are essential. The level of credit risk the lender can prudently take may be seen as a function of cash flow, the relative liquidity of the lender's collateral, the amount of it available relative to the loan balance, and the amount of control the lender has over the collateral. From the borrower's perspective, ABL represents probably the best way to finance a rapidly growing, privately held company.

TEXT: The 1990s present tremendous opportunity for asset-based lenders with the determination and fortitude to develop existing markets and to create and explore new ones. However, our ability to take advantage of this opportunity will be determined by our vision, our preparedness, and our thorough understanding of the basics of our business. We must fully grasp not only how the business works, but why it works so well.

Our market positioning and targeted returns must reflect a realistic assessment of these elements if we are to be successful. Some of our seasoned colleagues grasp these elements almost intuitively. Most of us, however, need to be reminded of them and to revisit and reexamine our fundamentaltenets. Without delving into the legal and bankruptcy issues, we propose to do just that.

Since its inception, asset-based lending, or commercial finance as it was

previously known, has been broadly utilized by companies requiring working capital borrowing beyond what has normally been provided by traditional banking institutions. Asset-based lenders have been accordingly rewarded with exceptional returns on investment, by providing a relatively generous level of lending which facilitated the borrowers' growth, expansion, and profitability beyond anything previously attainable through conventional financing.

THE ROOTS OF ASSET-BASED LENDING

Initially, asset-based lending was the exclusive preserve of a number ofindependent companies, and was viewed with varying degrees of disdain by many in the more elegant domains within the financial services industry. Some of these independents were the progeny of factoring organizations such as Walter Heller and James Talcott. Others, such as Aetna Business Credit and Commercial Credit Corporation, were affiliates of other types of financial institutions. During the 1960s and 1970s, a number of banking organizations elected to enter the market. They reasoned that, with their lower cost of funds, the bank affiliate-ABL could provide the same type !oans at more competitive pricing and still receive higher than normal returns.

NEW-FOUND RESPECTABILITY FOR ABL

The entry of the banks created a great ABL broadening of the industry, with increased respectability for this financing genre. The stigma felt by some borrowers in dealing with a "finance company" was alleviated by the perception that they were now dealing with a bank. With this new respectability came new acceptance of asset-based lending as a legitimate financing vehicle and not the venue oflast resort for commercial borrowers.

Many banks learned, unfortunately, that while the concept of asset-based lending is simple, "the devil is in the details." Those banks which started departments utilizing management drawn from other areas within the bank often failed. Lack of experience did them in. In practice, the business is demanding and requires seasoned management with direct ABL experience.

Needless to say, many of these bank/ABL ventures, which began bathed in the glow of great expectations, ended with disappointment and failure. Over

the years, the banks as well as other financial institutions have tried and failed at the business ofasset-based lending. Entries and exits from the business have been numerous in the past twenty years. This begs the question: "What's wrong with the business?" The answer is: "Nothing is wrong with the business." The problem lies in the execution. The business itself, when properly executed, is a model for logical business decision making. An examination ofthe facts reveals attributes found in this business which are found in no other sphere of corporate or commercial lending.

WHY ASSET-BASED LENDING?

The foremost reason for choosing to be in the asset-based lending business is the viability ofgrowing a profitable loan portfolio. Asset-based lending presents a unique platform upon which to build a profitable portfolio, relatively quickly. Unlike term lending which, by its nature, is a race to stay a step ahead ofthe ever-amortizing portfolio, asset-based loans often grow in size with the growth of the borrowers. As borrowers grow, their current assets usually grow along with them and they require increasing funding support. Assuming all else is satisfactory, the asset-based lender can allow the loans to grow as the borrowers grow. The accretion ofthe asset-based lender's portfolio is in fact a unique and important part ofits overall growth.

THE CONTROL FACTOR

Another aspect which makes asset-based lending attractive is the fact that, since the loans are monitored, to a degree, they can be controlled. Through daily client contact, obtaining regular collateral and financial reporting, verification procedures, regular field examinations, trend analysis and other methods, the asset-based lender knows with far greater certainty exactly where his portfolio loans stand. Further, this information is real-time information, not ancient history. Quarterly or even monthly financial statements alone do not provide information rapidly enough nor in sufficient detail to truly stay abreast of a middle market borrower's operations.

THE REPORTING FACTOR

Asset-based lenders have a decided advantage. By requiring regular reporting in addition to monthly internal financial statements, the lender stays in touch with the changes taking place with its borrowers. Daily collection reports and assignments, weekly inventory reporting, monthly

accounts receivable agings, weekly payroll tax reporting, along with other transaction-specific reporting, all combine to keep the asset-based lender constantly updated relative to the borrower's current status. Armed with timely information, the asset-based lender can take action in a timely manner if necessary.

THE LIQUIDITY FACTOR

This leads to another strength of asset-based lending and that is the ability to be proactive. By having dominion of funds, the asset-based lender can control advances and capture accounts receivable collections to reduce the overall loan exposure (subject of course to legal and contractual constraints). Unlike term lending, which requires much time and effort to control delinquencies, the asset-based lender has the ability to draw payments from loan availability. In fact, the lender is continually being repaid (as well as providing new fUnding). Whereas a term loan turns over once during its life, an asset-based loan may turn six or more times per year. Most importantly, since accounts receivable (and inventory as well) are nearer to the cash end of the collateral spectrum than fixed assets, the conversion of the lender's collateral to cash for loan repayment is normally quicker and easier.

It is, of course, painfully obvious that if the lender can liquidate the collateral quickly, so can an unscrupulous or distressed borrower. This is a fUndamental reason that constant monitoring and due diligence is exercised. While we cannot absolutely prevent fraud, we can in most instances detect it early enough to take appropriate action. Again, asset-based lending makes provision for extraordinary methods of reporting and control which greatly reduce the likelihood of fraud.

In a liquidation scenario, valid accounts receivable should liquidate themselves within 90 days or less, as in the normal course ofbusiness. There is no need to hold an auction or be concemed about storage facilities, transportation, or security as with inventory or equipment. The asset-based lender simply notifies the account debtors to pay the lender directly (and, incidentally, that if they pay the borrower after receiving the notification, they are not relieved of the responsibility to pay the lender the full amount due). The loan is then liquidated as the receivables are collected.

THE NEXT BEST COLLATERAL

The next band on the collateral spectrum is inventory. Although sometimes perceived as the bane ofasset-based lenders, marketable inventory is, nonetheless, often the next best thing to accounts receivable relative to liquidity. We of course, do have to provide for storage. Beyond that, if we have performed an inventory marketability analysis as part of our initial due diligence, then presumably a sale of the inventory will garner near the initial forced sale valuation and liquidate our loan position. There is the risk that the borrower sells offinventory and does not report the depletion and/or does not pay for it. Again, due diligence and constant monitoring mitigate this risk. Inventory subject to spoilage or obsolescence must be treated with special care. Normal weekly or monthly inventory reporting, along with sales trend analysis and inventory test checks during the field examinations, keep the lender apprised of the inventory status.
There are usually a number of options available to the lender relative to inventory liquidation. Often the inventory can be sold through the borrower's existing customer base and no special liquidation efforts beyond active collection of the resulting accounts receivable are necessary. Again, the inventory is sold in the normal course of business, unlike equipment or real estate, so it is normally but one step fUrther from liquidation than accounts receivable. Often inventories can be sold to competitors, who require bulk quantities ofthe goods in question. Many times, suppliers are also interested in repurchasing inventory at a discount either to resell it at a high profit, or to prevent a bulk inventory sale by the lender which might damage the market for the supplier.

One issue with inventory is that its marketability and value vary widely among differing industries. Assessing the liquidation value ofa specific inventory can sometimes be difficult. Commodity inventory, such as lumber or steel, and hard finished goods, such as machinery, tools or appliances, typically have strong liquidation values. They can often be sold for up to 90 percent of cost. On the other hand, specialized or fashion-vulnerable inventories may be worth very little. Purchased parts, fad-oriented toys or apparel, and other specialty type inventories may bring as little as 10 percent, or even less.

Experienced asset-based lenders, however, are familiar with many types ofinventories. Sooner or later, the lender will have seen virtually every type ofinventory in the marketplace. If the lender has not seen them all, he has at least seen similar inventories and therefore has a point of reference for analyzing the unfamiliar inventory at hand. At the very least, the lender knows how to contact industry experts or bring in an appraiser.

SLOW COLLATERAL

Finally, at the slow end of the spectrum, the hard assets represent the collateral fiuthest from liquidity. The number one reason they are furthest from liquidity is that they are not ordinarily liquidated in the normal course of business. Those asset-based lenders who lend on machinery and equipment know that in order to liquidate it, they must hold a well-planned and well-advertised auction conducted by a qualified auctioneer who will demand a significant commission for his services. Even so, if the initial loan advance and subsequent amortization schedule has maintained the loan balance at or below 85 percent ofthe liquidation value ofthe equipment, then the liquidation should be successful, assuming a normal market.

Those asset-based lenders who lend on real estate typically do so very conservatively, often lending 50 percent or less of MAI appraised value. The real estate recession (some would say depression) has put a severe damper on the enthusiasm of virtually all lenders for commercial real estate. It typically has the longest and most excruciating liquidation time frame and often remains on the lender's books as a nonearning asset for an uncomfortable period of time.

The point to be made is that the closer the collateral is to the liquid end of the collateral spectrum, the more expeditiously and efficiently it can normally be liquidated. This effectively gives such collateral more weight relative to liquidation efficie;icy and thus to the overall credit equation. This, along with the fact that true asset-based loans are closely monitored, is the reason asset-based lending works so well.

THE BALANCE THEOREM

A further expansion on this premise leads us to a construct oflogic we can call "The Balance Theorem." Simply stated, the greater the borrower's cash flow, plus the relative liquidity of the lender's collateral, plus the

amount of it available relative to the loan balance, plus the amount of control the lender has over the collateral, equals the level of credit risk the lender can prudently take. Our formula would read:

Cash Flow + Collateral Liquidity + Collateral Amount + Collateral Control = Safety Level

Obviously, precise quantification is not our aim, but to demonstrate the relationship of the components of our equation relative to sound credit analysis. While the balance sheet is clearly a factor, we are presuming that we either are not overly concerned with the leverage, as collateral lenders, or that we are always going to operate within our acceptable threshold ofpain regarding leverage. The presumption is that the overriding factor, we, as asset-based lenders, are concerned with, is our loan versus collateral amount, since we are fully secured lenders. This is hardly a new concept. Most providers of credit use this consciously in utilizing the classic strengths and weaknesses analysis or in utilizing a form of credit scoring. Unconsciously it is used when the lender relies on gut feelings, which could be described as one's cumulative experience juxtaposed with the facts surrounding a given transaction. By creating a graphic illustration, the aim is to help in the visualization and internalization of some valuable concepts.

Some components placed on the scale will have more weight than others within a given transaction. For example, a transaction may have tremendous collateral coverage, excellent controls in place, and have the most liquid collateral short of cash (i.e. accounts receivable) but have a poor cash flow. The weight ofthe first three components compensates for the lack of weight of the fourth one for certain lenders (or factors) operating at the more aggressive or collateral-oriented end ofthe spectrum (See Balance Theorem, Example "1").

At this end of the spectrum or "Balance" playing field are the small factors which extend credit by purchasing the client's invoices. They have the maximum amount of control available to a provider of fUnds, by having ownership of the collateral, advancing relatively low amounts (75 percent or less), collecting the proceeds directly, and verifying up to 100 percent of the purchased invoices.

The weight in this instance is with control, collateral liquidity, and relative amount. Theoretically, the factor can take a great deal more credit risk relative to cash flow/balance sheet, and worry little about those elements because of all the other elements in its favor. The factor weights the scale to a degree which compensates for the lack of weight of the cash flow/balance sheet component. Factors such as the one in our example are compensated proportionately to the credit risk assumed and are therefore able to accrue correspondingly larger reserves against fUture losses, fUrther insulating them against the negative elements in the transaction.

At the other end of the spectrum are cash flow--oriented lenders who perhaps lend on less liquid collateral, require less of it, and have little in the way of controls, but demand extremely good cash flows and balance sheet ratios, as well as other tight restrictions. They may be accepting higher risks relative to the collateral, but overall are taking very little risk because of the strong cash flow and balance sheet ofthe borrower which, as a result, may have a much lower likelihood of liquidation (See Balance Theorem, Example "2"). The only problem is that with low risk comes low reward and, usually, more competition.

Within the asset-based lending universe, there are lenders to be found all along this collateral/credit risk spectrum. The traditional asset-based lenders will be those toward the collateral-weighted end of the spectrum, whereas the quasi-asset-based lender, or light monitoring variety will fall toward the cash flow/balance sheet end of the spectrum. There are lenders representing many criteria nuances throughout the spectrum.

There is effectively a sliding scale; the more credit risk a lender takes, the more collateral coverage and collateral control is needed. The key is the balance. If a loan transaction is deficient in any one of the areas discussed, it must be correspondingly strong in another area to afford the lender relative safety.

THE ASSET-BASED LENDING PARADIGM

From the borrower's perspective, asset-based lending represents probably the very best vehicle available for financing a rapidly growing, privately

held company. The borrower views asset-based lending as a means to finance his operation through a relatively high level of debt, and is willing to pay a higher interest rate, accept more personal responsibility, and subject himself to a higher degree of monitoring and control. The borrower is also engaged in a game of balance.

By allowing his funds to be controlled and his business to be closely monitored, the borrower is able to obtain much more working capital than would otherwise be possible. Figure "A" "The Asset-Based Lending Paradigm" provides a graphic demonstration of the asset-based lender/borrower

relationship and the mutual commitment levels exhibited, from relatively little borrower commitment and lower loan amounts, to very high levels of borrower commitment and correspondingly greater loan amounts.

THE FUTURE FOR ASSET-BASED LENDING

In the credit environment ofthe 1990s, asset-based lending is more important as a financing vehicle for the middle market corporate borrower than ever before. At the very same time, these particular borrowers are discovering that many traditional asset-based lenders have exited the market or have moved upscale relative to their desired transaction size andior credit quality. Not only that, but the credit crunch has trickled down, causing even some ofthe most aggressive asset-based lenders to exercise unprecedented selectivity.

This environment provides a ripe opportunity for those asset-based lenders with determination and fortitude. For all of us, taking fUll advantage of the opportunities being presented requires a complete grasp ofthe crucial elements within the business and the ability to apply the strengths built into asset-based lending which have been refined and expanded by those who have gone before. The ability to communicate the inherent advantages to prospective borrowers is paramount, as we seek to penetrate and expand the ABL marketplace. This understanding ofthe crucial elements within the business, and the ability to maintain a sense ofbalance within our credit decisions, will serve to undergird our future growth and prosperity.

(Examples 1, 2 and Figure A appeav on pages 30 and 31.)